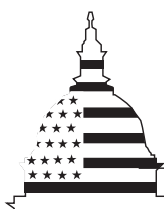


March 2001

FTS2001

Transition Challenges Jeopardize Program Goals



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Abstract As you know, telecommunications services are increasingly critical in transforming the way the federal government conducts business, communicates internally and externally, and interacts with citizens, industry, and state, local, and foreign governments. Electronic government services based on reliable, secure, and cost-effective telecommunications can enable agencies to streamline the way they conduct business, reduce paperwork and delays, and increase operational efficiencies. They also offer the potential for building better relationships between government and the public by making interaction with citizens smoother, easier, and more efficient. Accordingly, it is important that a far-reaching program like the FTS2001 program take full advantage of new services offered by industry; that agencies effectively and efficiently implement these telecommunications services to improve operations; and that the program be successfully implemented in order to maximize benefits to the taxpayers. The FTS2001 program is the successor to FTS 2000, which provided long distance telecommunications services to federal agencies. While federal agencies were required to use the FTS 2000 program for their long distance telecommunications, FTS2001 is not mandatory. The program relies instead on its ability to provide good services at low prices as a means of attracting and retaining federal customers. Under the FTS2001 program strategy, the General Services Administration (GSA) would also award contracts for local-area telecommunications services and ultimately might allow those contractors to offer both local and FTS2001 long distance services.		

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The Honorable Stephen Horn
Chairman
Subcommittee on Government Efficiency, Financial Management,
and Intergovernmental Relations
Committee on Government Reform
House of Representatives

The Honorable Tom Davis
Chairman
Subcommittee on Technology and Procurement Policy
Committee on Government Reform
House of Representatives

As you know, telecommunications services are increasingly critical in transforming the way the federal government conducts business, communicates internally and externally, and interacts with citizens, industry, and state, local, and foreign governments. Electronic government services based on reliable, secure, and cost-effective telecommunications can enable agencies to streamline the way they conduct business, reduce paperwork and delays, and increase operational efficiencies. They also offer the potential for building better relationships between government and the public by making interaction with citizens smoother, easier, and more efficient. Accordingly, it is important that a far-reaching program like the FTS2001 program take full advantage of new services offered by industry; that agencies effectively and efficiently implement these telecommunications services to improve operations; and that the program be successfully implemented in order to maximize benefits to the taxpayers.

The FTS2001 program is the successor to FTS 2000, which provided long distance telecommunications services to federal agencies. While federal agencies were required to use the FTS 2000 program for their long distance telecommunications, FTS2001 is not mandatory. The program relies instead on its ability to provide good services at low prices as a means of attracting and retaining federal customers. Under the FTS2001 program strategy, the General Services Administration (GSA) would also award contracts for local-area telecommunications services and ultimately might allow those contractors to offer both local and FTS2001 long distance services.

GSA awarded an FTS2001 long distance services contract to Sprint in December 1998 and another to MCI WorldCom in January 1999. Under the terms of these contracts, each contractor is guaranteed minimum revenue of \$750 million over the life of the contracts, which run for 4 base years and have four 1-year options.

The federal government began transitioning from the FTS 2000 to the FTS2001 long distance telecommunications contracts in June 1999. In order to support continuity of telecommunications service to agencies during the transition, GSA awarded FTS 2000 extension contracts in December 1998 to the two FTS 2000 contractors—Sprint and AT&T. These contracts had a 12-month base period with two 6-month options. The second and final 6-month options were to expire on December 6, 2000—the expected date for fully completing the FTS2001 transition. However, delays encountered during transition have caused an extension of the transition period, thereby requiring GSA to negotiate extensions to the FTS 2000 extension contracts in December 2000.

This report responds to a July 28, 2000, request from the Chairman, Subcommittee on Government Management, Information, and Technology, Committee on Government Reform. That request asked that we determine (1) the status of the FTS2001 transition, (2) reasons for delays, and (3) the effects of delays on meeting FTS2001 program goals of maximizing competition for services and ensuring best service and price. We conducted our work from July 2000 through February 2001 in accordance with generally accepted government auditing standards. Appendix I contains a discussion of our objectives, scope, and methodology.

Results in Brief

As of February 2001, about 88 percent of FTS2001 transition service orders were completed, according to an organization established to provide oversight and support for the transition, the Interagency Management Council's (IMC) Transition Task Force.¹ This transition was expected to be 100 percent complete by December 6, 2000. The transition results to date

¹IMC was established in 1992 to provide recommendations and advice to the General Services Administrator concerning management of the FTS 2000 program and to assist in conducting that program. IMC is made up of a senior information resources management official from each of the 14 cabinet-level departments, the Environmental Protection Agency, the National Aeronautics and Space Administration, the U.S. Postal Service, the Office of Management and Budget, and the Small Agency Council. The Transition Task Force was established by IMC to support FTS2001 transition efforts.

vary by type of service ordered—for example, while more than 90 percent of switched voice service orders for transition were completed, only about 55 percent of the transition service orders for switched data services were completed.

The transition to the FTS2001 long distance contracts was not completed in the originally planned time frame for several reasons. First, while GSA developed an automated system to track transition progress, the FTS2001 contractors did not provide to GSA the management data it needed to populate that system so that it could be used to accurately measure and effectively manage this complex transition. Second, the inability of GSA and the long distance contractors to rapidly add transition-critical services to the FTS2001 contracts impeded agency efforts to order FTS2001 services. Third, FTS2001 customer agencies were slow to place orders for transition services, due in part to Year 2000 computing concerns and in part to a lack of staff resources dedicated to managing their transition efforts. Fourth, problems with staffing shortages and turnover, billing, and procedures impaired the efforts of FTS2001 contractors to support agencies' transition activities. Fifth, some local service providers outside the FTS2001 program did not provide services and facilities as scheduled that were needed to deliver FTS2001 services to discrete locations.

Progress has been made in resolving the factors contributing to transition delays. For example, in December 2000, GSA was able to obtain a transition information database from one FTS2001 contractor for use in future telecommunications planning, and it is working with the other FTS2001 contractor to obtain similar information. In addition, GSA has added more transition-critical services to the contracts. Also, as of February 2001, customer agencies have submitted most of their transition service orders to the FTS2001 contractors, and the contractors have acted to improve their processes and staffing.

Nevertheless, the collective effect of delays encountered during this complex transition jeopardizes the timely achievement of FTS2001's two program goals of ensuring best service and price to the government and maximizing competition. First, the FTS2001 contract waives numerous service performance requirements placed on the contractors during the transition period. Because delays encountered have extended this transition period, the government cannot ensure that it is receiving the best service possible in accordance with its requirements. Second, the overall telecommunications costs of those agencies that have not yet completed their transition will increase during this extended transition period because of the increased cost of extended FTS 2000 services.² Third, because transition delays slowed the accumulation of FTS2001 contract revenues against the contracts' substantial minimum revenue guarantees, GSA is constrained in adding long distance service providers, thereby limiting rather than maximizing agencies' choice of telecommunications service providers.

While it cannot unilaterally dictate the progress of the FTS2001 transition, GSA can facilitate the transition and the program's goals by addressing management information shortcomings, more accurately measuring transition progress, expeditiously processing those contract modifications that are critical to transition efforts, and resolving billing disputes. Until these issues are resolved and the transition effort is completed, the FTS2001 program will not be positioned to fully achieve its basic goals of ensuring the best service and maximizing competition.

In written comments on a draft of this report, GSA generally agreed with our report and recommendations, and said that it was acting on these recommendations. GSA stated, however, that the report does not reflect the success of the FTS2001 transition. Regarding the transition, we believe that we have fairly characterized GSA's progress and efforts to overcome impediments. Despite some success, the FTS transition has not met its completion deadline and FTS2001 goals are not yet fully realized.

²As a result of transition delays, in December 2000, GSA had to modify the sole-source FTS 2000 extension contracts awarded in December 1998 to Sprint and AT&T to continue FTS 2000 services through the completion of the transition. The modification to the Sprint contract provides for an additional 6 months of FTS 2000 services, at an estimated cost of \$10 million. The modification to the AT&T contract provides for an additional 12 months of FTS 2000 services, at an estimated cost of \$42 million.

Background

The FTS2001 program is the successor to the two programs that provided long distance telecommunications to the federal government: the Federal Telecommunications System (FTS) and the FTS 2000 program. Each program represented an improvement over its predecessor in terms of available services and technology. The programs’ principal differences in acquiring and delivering long distance telecommunications services are summarized in table 1.

Table 1: Federal Telecommunications Services Programs

Service features	FTS (1963–1990)	FTS 2000 (1989–2001)	FTS2001 (1998–)
Means of delivery	Government leased and operated	Mandatory commercial services	Nonmandatory commercial services
Type	Long distance voice, low-speed data, and facsimile services	Long distance voice, high-speed and switched data, and video services	Long distance voice, video, additional data services, and international services
Technology used	Predominantly analog	Analog and digital	Predominantly digital

Source: GSA; Interagency Management Council; Office of Technology Assessment; U.S. General Accounting Office.

A significant difference between the FTS 2000 and the FTS2001 programs is that, unlike the FTS 2000 program, the FTS2001 program is not mandatory. That is, agencies are not required to use FTS2001 for their telecommunications needs. Nevertheless, all but one federal agency represented on the IMC agreed in October 1997 to transfer their core telecommunications requirements expeditiously from FTS 2000 to FTS2001 contracts upon award of those contracts.³

FTS2001 Program Strategy, Goals, and Contracts

Between 1994 and 1997, IMC and GSA cooperatively developed, revised, and issued a post-FTS 2000 program strategy, during that time considering and incorporating comments from industry as well as from the Congress. IMC and GSA set two goals for the FTS2001 program: to ensure the best service and price for the government and to maximize competition for services. An integral part of the basic strategy to achieve those goals was ultimately to move beyond offering only long distance telecommunications

³This commitment was made in an October 24, 1997, letter to the Administrator of General Services that was signed by all IMC members except the U.S. Postal Service.

services by adding integrated end-to-end telecommunications services, that is, permitting each contractor to offer both local and long distance services.

Consistent with this original program strategy, the overall FTS2001 program allows further competition in the long distance market beyond the two contractors already awarded FTS2001 contracts. For example, service providers who are awarded contracts under GSA's Metropolitan Area Acquisition (MAA) program—which provides local telecommunications services in selected geographic areas—may be permitted to compete for FTS2001 business (1) if allowed by law and regulation, (2) after the FTS2001 contracts have been awarded for a year, and (3) if GSA determines that it is in the government's best interests to allow such additional competition.

In implementing this program strategy, GSA awarded two contracts for FTS2001 long distance services—one to Sprint in December 1998 and one to MCI WorldCom in January 1999. Services offered to agencies under these contracts include toll-free and other voice services; international voice and data services; Internet- and intranet-based services; and low-speed and high-speed data communications services. Each contract is for 4 base years from the date of award, with four 1-year options, and each vendor is guaranteed minimum revenues of \$750 million over the life of the contracts.

Although to date it has also made MAA contract awards to 8 service providers in 19 metropolitan areas across the country, GSA has not yet allowed MAA contractors to offer FTS2001 long distance services.⁴ Observing that the FTS2001 minimum revenue guarantees may take longer

⁴For the New York City, Chicago, and San Francisco MAA regions, GSA has recently announced that it will accept proposals to offer local services in those regions from FTS2001 contractors and from other MAA contractors.

to meet than the 4-year base period of the Sprint and MCI WorldCom contracts, the GSA Administrator considered those guarantees to be a major factor in deciding when to open the FTS2001 long distance market to MAA contractors. Therefore, the sooner the federal government can be assured of satisfying its FTS2001 minimum revenue guarantees, the sooner GSA can add more long distance options and maximize the ability of federal agencies to achieve basic program objectives cost effectively. In an April 2000 report to the Chairman of the Committee on Government Reform, we assessed the FTS2001 minimum revenue guarantees and their constraining effect on GSA's ability to add competition to the FTS2001 program.⁵

To support service continuity during the FTS2001 transition period, GSA awarded sole-source extension contracts, effective in December 1998, to the two FTS 2000 contractors. These contracts had a 12-month base period with two 6-month options. The AT&T and Sprint extension contracts were originally valued at \$801.3 million and \$285.5 million, respectively. The second 6-month option on the FTS 2000 extension contracts expired on December 6, 2000, thereby establishing this date as the goal for completing the FTS2001 transition.

FTS2001 Transition Is Complex

The transition of the federal government's long distance telecommunications services from its FTS 2000 contracts with Sprint and AT&T to its FTS2001 contracts with Sprint and MCI WorldCom is a sizable and complex undertaking. For example, the multibillion-dollar FTS 2000 long distance services contracts ultimately reached more than 1.7 million users during the contracts' 10-year existence. FTS 2000 revenues for fiscal year 1999 alone approached \$752 million for a variety of voice, data, and video communications services to users throughout the federal government. The significant differences between the government's FTS 2000 transition and its transition to FTS2001 are highlighted in table 2.

⁵Telecommunications: GSA's Estimates of FTS2001 Revenues Are Reasonable (GAO/AIMD-00-123, April 14, 2000).

Table 2: Comparing the FTS 2000 and FTS2001 Transition Efforts

FTS to FTS 2000	FTS 2000 to FTS2001
Primarily voice service	More complex voice and data services
Moved 40% of traffic from incumbent to a second contractor	Moving 76% of traffic from one incumbent to two contractors
Completed in 18 months	86% complete in 24 months

Sources: Interagency Management Council Transition Task Force and General Services Administration.

FTS2001 Transition Responsibilities Are Spread Among Participants

Although the FTS2001 long distance contracts are administered by GSA, several parties share responsibility for moving to and implementing those contracts. In particular, agencies themselves must select which of the two service providers best meets their service requirements and cost objectives. (Agencies can also select both providers if that arrangement best suits their needs.) This selection is the first step in the transition process. Once this selection is made, the next step is for the selected FTS2001 contractor to complete a site survey of agency requirements and develop a site transition plan. The next step is for agencies to order services. The FTS2001 contractors then must complete the order for the service to be transitioned. At this point in the process, local exchange carriers become involved. In coordination with the two FTS2001 long distance service providers, local carriers provide the facilities and network connectivity that link a customer agency's premises to the FTS2001 contractor's network. Finally, after the transition order is completed, the agency must issue a disconnect order to the incumbent FTS 2000 service provider, who must then execute it.

This shared responsibility shifts some of the control over transition processes, for some agencies, away from GSA. Rather than actively managing and directing the FTS2001 program transition, as it did with FTS 2000, GSA views itself as a facilitator. Principal responsibility for transition rests with the agencies, in partnership with their selected service providers, where an agency chooses to manage its own transition. Nevertheless, GSA does have important program-level responsibility for transition planning. For example, GSA's Federal Technology Service organization is responsible for FTS2001 program management and contract administration; centralized customer service; ongoing coordination and procurement of services; billing support to agencies; and engineering, planning, and performance

support through review of transition plans and contractor performance monitoring.

In addition to that provided by GSA, oversight is also provided by IMC's Transition Task Force, established to aid transition efforts by sharing information and lessons learned, identifying and solving common problems, and advising GSA FTS managers on transition management and contractual issues. This IMC Transition Task Force began meeting with agency, contractor, and GSA staffs in December 1999 to oversee and support transition activities.

FTS2001 Transition Is Behind Schedule

According to the IMC's Transition Task Force, about 88 percent of FTS2001 transition service orders were completed as of February 2001, whereas the original schedule called for the transition to be complete by December 6, 2000. Transition progress varies by the type of service ordered. According to transition management reports prepared by IMC's Transition Task Force, the government had by February 2000 transferred most voice services from FTS 2000 to FTS2001 and substantially completed the transition of its dedicated transmission services. However, the transition of switched data services—primarily large agency data communications networks using frame relay or ATM (asynchronous transfer mode) technologies—was lagging significantly. These transition results are summarized in table 3.

Table 3: FTS2001 Transition Progress Reported by IMC

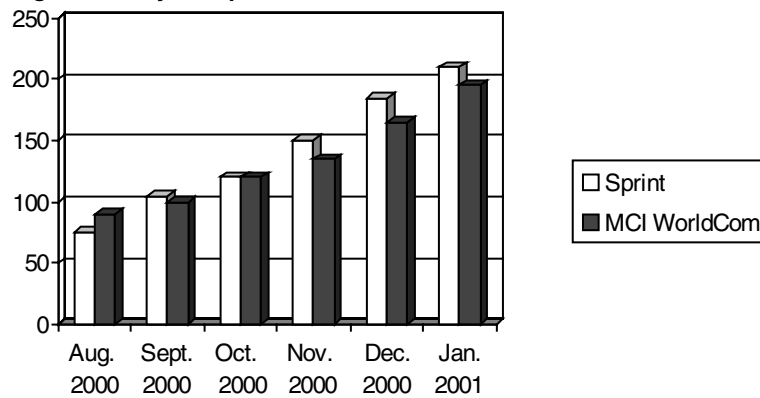
Type of service	Total orders (estimated)	Orders received	Orders completed
Switched voice service	103,647	100%	91%
Dedicated transmission service	12,648	99.8%	86%
Switched voice service (dedicated access)	7,066	100%	89%
Switched data service/frame relay	9,929	97%	55%

Source: IMC Transition Task Force, February 2001.

Revised schedules developed by Sprint and MCI WorldCom for the IMC Transition Task Force in February 2001 projected that the contractors would complete their FTS2001 service orders in April 2001 and June 2001, respectively.

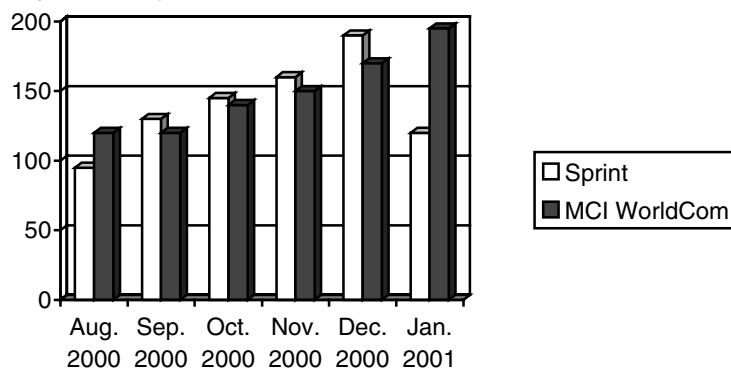
As the transition progresses, trends suggest that the final services to be transitioned are the most time-consuming. As summarized in figures 1 and 2 below, the number of days on average from the time a contractor receives an order for service until it completes the order has significantly increased in recent months, particularly with respect to data communications services.

Figure 1: Days Required to Provision Dedicated Transmission Service



Source: IMC Transition Task Force.

Figure 2: Days Required to Provision Switched Data Services



Source: IMC Transition Task Force.

Several Factors Contribute to Transition Delays

There are several reasons for FTS2001 transition delays, which involve all the key players in the program, including GSA, federal agencies, FTS2001 contractors, and local exchange carriers:

- The FTS2001 contractors did not provide GSA with the management data it needed to manage and measure this complex transition process.
- GSA was not able to rapidly add all the services to the FTS2001 contracts required by agencies to complete their transition.
- Customer agencies were slow to order FTS2001 services.
- FTS2001 contractors had staffing shortfalls and turnover on account teams, as well as billing and procedural problems, which impaired their support of agency transition activities.
- Local exchange carriers had problems delivering facilities and services on time to the FTS2001 contractors.

Although progress has been made to correct these problems, they prevented the completion of FTS2001 transition actions by the original December 6, 2000, deadline.

Management Information Shortfalls Impede GSA's Transition Reporting and Oversight Efforts

As transition manager, GSA plays a critical role in coordinating the efforts of the other players, but it is having a difficult time collecting the accurate and comprehensive data it needs to carry out its responsibilities. While GSA developed an automated system to help track transition data and develop reports, the FTS2001 contractors did not furnish GSA with the data it needed to populate this management system. As a result, GSA and agency transition managers are not receiving the timely, up-to-date information they need to effectively manage transition activities.

In April 1999, GSA awarded the SETA Corporation a task order, valued at \$245,000, to develop a Transition Status and Monitoring System that could be used by both GSA and agency transition managers to actively manage the FTS2001 transition. The system was intended to provide managers with up-to-date status reports, event notices, and jeopardy reports based on overall contractor transition plans and current progress. Managers could then select these reports by contractor, agency, bureau, location, service type, and transition phase. Using detailed, up-to-date transition information to be provided by the two FTS2001 contractors' respective on-line transition management plans and databases, this management system was to provide GSA and agency transition managers with the information they

needed to measure transition progress and identify variances from transition plans.

Although SETA developed the system and delivered it to GSA in September 1999, it has not been used to manage the transition as planned. According to GSA managers, the system is not operational because the basic management information it needs to operate was not provided by the FTS2001 contractors. The FTS2001 contracts require the contractors to develop on-line versions of their respective transition management plans and to update the information in these plans daily. In addition, the contractors are required to develop and maintain information on transition schedules, along with a summary of all information contained in transition management plans, in a transition database. This database information was required to be fully up-to-date for a given location at the time access service was ordered for that location, and the contractors were to update it as required to maintain its currency and accuracy until transition was complete.

GSA transition managers were not able to obtain usable and complete transition management information from the contractors until recently, however, which prevented the use of this information in populating the automated transition management system as planned. GSA managers cited two reasons for this problem. First, the FTS2001 contractors were slow to develop this on-line information. For example, GSA did not receive a usable version of a transition database from MCI WorldCom until December 2000; in January 2001, GSA was considering how to use that information to populate its management system to support future telecommunications planning and acquisition efforts. GSA is continuing to work with Sprint to obtain its transition database and expects to receive that information in March 2001. Second, because the contractors were slow to develop the required information, SETA, GSA, and the FTS2001 contractors could not agree on a common interface format that would have allowed SETA to populate the transition management system with any available information sooner.

In the interim, GSA and others have been gauging the progress of the transition from information on service orders submitted by agency managers, agency activity reports, and contractor activity reports. In doing so, GSA used time-consuming, ad hoc processes to obtain transition event and status information, including manually reconciling changes as they were reported. In addition to GSA's efforts, the IMC's Transition Task Force has been verifying transition-reporting data with agencies and contractors

in order to improve the accuracy of their transition measurements. In spite of these efforts, GSA cannot be certain that the information it gathers presents a full accounting of transition progress.

Although both the IMC Transition Task Force and GSA report transition progress in terms of transition orders completed, their reports provide an incomplete perspective because they do not report on the final step in the transition process—the issuance and completion of disconnect orders required to turn off FTS 2000 services. Reporting of this final step can significantly affect perceptions of progress. For example, as a means of tracking transition completion, monthly reports from the U.S. Department of Agriculture’s FTS2001 transition manager include information on both transition orders completed and FTS 2000 billing statistics. That is, USDA managers are using their FTS 2000 billing information to confirm that service disconnect orders are completed by AT&T. As illustrated in table 4 below, although orders completed indicate that USDA is making substantial transition progress, this progress is substantially reduced when viewed in terms of completed service disconnection.

Table 4: Alternative Views of Overall USDA FTS2001 Transition Progress

Monthly report	Progress based on FTS2001 service order completion	Progress based on FTS 2000 service disconnection
September 2000	79%	57%
October 2000	79%	57%
November 2000	88%	64%
December 2000	90%	66%

Source: U.S. Department of Agriculture.

GSA receives disconnect reports from AT&T and is comparing the data in those reports to its inventory of FTS 2000 services and to reports from the FTS2001 contractors of transition orders completed. Where it appears that FTS 2000 services have not yet been disconnected, GSA flags those instances and reports them to the affected agency. However, GSA does not use this information to report formally on transition progress. As a result, transition progress reports that focus only on service order completion will not indicate full transition completion because of the time lag between the completion of an FTS2001 service order and the disconnection of the FTS 2000 service that it replaces.

Contract Modification Efforts Impede Transition Progress

In addition to its responsibility for overseeing the transition, GSA has administrative responsibility for processing and authorizing contract modifications. This function is critical to the ongoing transition because, at the time of their initial award, the FTS2001 contracts did not contain all the services that agencies need to complete their transition. To transfer their services from FTS 2000 contracts, agencies must be able to order suitable replacement services from their FTS2001 contractors. Adding all the services needed to complete transition to the FTS2001 contracts has taken time, however, which has in turn delayed agency transition efforts.

Although GSA set a target of completing a contract modification within 60 days of receipt of proposal from the contractor, the time for completion has actually varied widely, ranging from 1 week to more than 15 months. For example, for nine transition-critical modifications⁶ completed by October 23, 2000, the processing time averaged 162 days from the time the contractors' proposal was received to the time the modification was completed. Six of those nine modifications required over 60 days to complete processing. Modifications can take longer than expected to complete because GSA and the contractors must negotiate the terms, and according to GSA managers, customer agency need for customized services also contributes to delay in processing contract modifications. One modification—a 7.5 kHz dedicated transmission service for the FBI that affected over 225 service orders—was under consideration for more than 11 months, delayed by pricing considerations. Other transition-critical modifications are still in evaluation, such as modifications for managed network services required to support transition efforts at the Social Security Administration, Treasury, Interior, and Coast Guard.

GSA has taken steps to improve its processing of contract modifications, and workarounds have been used to minimize the effect of these delays. For example, in August 2000, on the advice of the IMC Transition Task Force, GSA began prioritizing its processing of transition-related contract modifications. By February 21, 2001, all but one contract modification required to complete the Sprint FTS2001 transition had been made, and six transition-related contract modifications required for the MCI WorldCom contract were still in process. GSA expected to complete the most critical of these modifications by the end of February 2001 and the remainder by the end of April 2001.

⁶Out of 20 transition-critical modifications whose status was reported to GAO by GSA on October 26, 2000.

Further, agencies are receiving managed network services on a trial basis as a workaround while the managed network services modifications with MCI WorldCom are being developed and processed.

Agencies Were Slow to Order FTS2001 Services

Although IMC specifically recognized the time-critical nature of the FTS2001 transition when it chartered the Transition Task Force, this did not result in prompt FTS2001 service ordering. The delay in issuing transition service orders has been significant. Both FTS2001 contracts were awarded by January 12, 1999, with the planned completion date for the transition being December 6, 2000. As of January 2000, halfway through the allotted transition period, less than a third of the total service orders required for transition had been submitted by agencies. After February 2000, the pace of agency order submissions increased significantly. Nevertheless, for transitioning switched data services, where the least progress has been made, agencies had submitted only about half the service orders required for transition by June 2000—18 months after the final FTS2001 contract was awarded and 12 months after the start of transition activity.

The slow pace of orders was associated with two factors. First, the initial 12 months of the FTS2001 contracts coincided with agency planning and preparation associated with the Year 2000 computer issue. As a result, many transition activities were suspended during this period. Second, agency efforts were hindered by a reported lack of resources devoted to transition planning and management. For example, 7 of 11 transition managers at federal agencies that planned to move to FTS2001 told us that agency resource limits hampered their transition progress.

Recognizing the need for assistance, GSA stepped in and made contractor support resources available to agencies, covering the cost of those resources out of the FTS2001 transition fund.⁷ As of February 2001, agencies had submitted almost all orders for switched voice and dedicated transmission services, with orders for less than 4 percent of switched data services still outstanding.

⁷GSA established a transition fund of almost \$98.5 million to defray some FTS2001 transition costs, such as service initiation charges, interconnectivity, and parallel operations.

FTS2001 Contractors Have Difficulty With Customer Support and Billing

Reported shortcomings with FTS2001 contractors' customer support inhibited agency transition efforts and contributed to transition delay. For example, 10 of 12 agency transition managers we spoke with stated that initial transition efforts were hampered by turnover in contractor account teams and inadequate contractor procedures. These issues were specifically raised by the Treasury Chief Information Officer in a November 1999 letter to GSA's FTS Commissioner expressing dissatisfaction with Treasury's service provider, noting the contractor's continual inability to meet customer due dates, failure to provide adequate transition resources, and unacceptable project planning and scheduling. The Treasury's Office of Comptroller of the Currency (OCC), which began its transition in June 1999, terminated that effort in August 1999 because of contractor performance concerns and in February 2000 was threatening to leave the FTS2001 program.

In response to these shortcomings, both Sprint and MCI WorldCom took steps to increase substantially their resources supporting transition efforts and to improve their procedures. As a result, following discussion with its Sprint contractor on performance concerns, OCC restarted its transition in February 2000.

The second major problem area undermining transition progress was a lack of accurate, up-to-date billing information and the improper billing of services. The IMC Transition Task Force Chairman stated at that group's September 2000 meeting that billing was emerging as the number one transition-related issue. We were not able to obtain data to quantify the severity of billing problems across all agencies. However, we did document instances where the National Park Service, the Bureau of Land Management, the Tennessee Valley Authority, and bureaus within the U.S. Department of Agriculture were improperly billed by MCI WorldCom at higher commercial rates instead of at FTS2001 program rates after moving to FTS2001. In some cases these commercial bills led to collection activities against the agency for nonpayment and in a few instances actually resulted in the disconnection of service.

Rather than focusing on transition matters such as ordering services, these agencies had to redirect resources to resolve incorrect billings, respond to and try to resolve collection actions that had been improperly initiated, and restore erroneously disconnected services. The National Park Service and the Bureau of Labor Management either suspended or threatened to suspend their service ordering and transition efforts as a result of these problems and the time and effort required to solve them.

These billing problems arose because GSA did not ensure that the FTS2001 contractors met all billing requirements. For example, MCI WorldCom was required to have a contract-compliant service ordering and billing system in place before agencies began ordering services, but only recently has GSA completed acceptance testing for that system. GSA had waived the test and acceptance requirement for an indefinite period pending completion of testing to allow MCI WorldCom to begin accepting and processing FTS2001 service orders. However, GSA suspended acceptance testing in May 2000 because the MCI WorldCom billing system experienced persistent problems with the quality and timeliness of the monthly invoices it was producing for GSA.⁸ GSA escalated these billing issues with MCI WorldCom, and since September 2000 has held biweekly, executive-level meetings to resolve them. After receiving more timely and complete invoices from MCI WorldCom, GSA restarted service order and billing system acceptance testing in December 2000 and completed testing in February 2001; formal acceptance is expected in March 2001.

FTS2001 billing problems are not limited to MCI WorldCom. GSA has been trying to solve problems regarding approximately 23 contract deliverable items (including nine billing-related requirements) that Sprint has either not yet provided to the government or has not delivered in an acceptable form. GSA is continuing to address these issues with Sprint as well.

Local Exchange Carrier Issues Delayed Transition Activities

The completion of FTS2001 service orders has also been delayed because of difficulties obtaining required network access services and facilities from local carriers when and where needed. The IMC Transition Task Force chairman reported in March 2000 that 46 percent of agency locations that required local carrier access had experienced delays completing their service orders ranging from a few days to months. This problem has been worse where agencies wish to obtain higher speed access facilities in rural locations, such as Idaho Falls, Idaho, and in metropolitan areas that are experiencing a competing high demand for services and facilities, such as the Washington, D.C., metropolitan area.

Further compounding this issue was the recent strike by employees of the local exchange carrier, Verizon, which adversely affected more than 1,200 FTS2001 transition orders in the Northeast and Mid-Atlantic areas of the

⁸GSA began acceptance testing of MCI WorldCom's service order and billing systems concurrently in May 1999 and suspended that testing in May 2000.

country.⁹ These particular problems, which affect all users seeking to expeditiously obtain services from their local carriers, are not unique to the FTS2001 contracts. Nevertheless, they contributed to delays in implementing these contracts.

Transition Delays Jeopardize Timely Achievement of FTS2001 Program Goals

FTS2001 transition delays have three important effects on the program goals of ensuring the best service and price for the government and maximizing competition. First, delays in transitioning services increase the costs of those services. Second, because the FTS2001 contracts waive service performance requirements until the transition is complete, the government cannot ensure that service delivery meets expectations. Third, delays in transitioning services slow the accumulation of revenues to meet the FTS2001 contracts' minimum revenue guarantees, which makes GSA reluctant to add more contractors offering long-distance services.

Transition Delays Are Causing Telecommunications Costs to Rise

Delays in completing the FTS2001 transition will increase the cost of telecommunications for those agencies that have not completed their transition. There are several reasons why costs will rise for these agencies:

- Discounts under FTS2000 that were offered by Sprint expired on September 30, 2000, increasing the cost of services contracted after that date by approximately 20 to 25 percent.
- The modification made to AT&T's FTS 2000 extension contract in December 2000 discontinues discounts of 20 to 65 percent that had been in effect for a variety of services.
- The AT&T extension contract modification made in December 2000 also required a one-time payment to AT&T of \$8 million. GSA is raising the \$8 million payment by assessing a 20 percent surcharge against user agencies' monthly FTS 2000 bills through June 6, 2001.
- For FTS 2000 contractors Sprint and AT&T, volume discounts for voice services are in effect. That is, the unit price that agencies will pay for these services will increase as the volume of traffic on the FTS 2000 extension contracts decreases. For example, a telephone call placed with AT&T increases by more than 77 percent, to almost 10 cents per minute, once aggregate calling volume declines to less than 50 million

⁹In August 2000, Verizon was subject to a labor stoppage by its union workers that lasted for 15 days in New York and the New England states and for 18 days in the Mid-Atlantic states.

minutes. Also, this increase does not include increases in access costs that are also sensitive to call volume.¹⁰

**Contract Terms Defer
Performance Requirements
Pending Completion of
Transition**

The FTS2001 contract waives basic contract performance requirements until the FTS2001 transition has been completed, thereby restricting the government's ability to hold the FTS2001 contractors accountable for shortcomings in performance. These performance requirements include such things as the timeliness of service delivery, the availability of services, the quality or grade of service, and the restoration of failed or degraded service. As a result, transition delays not only increase the price the government pays for telecommunications services, they also hinder the government's ability to hold the FTS2001 contractors accountable for timely and effective service delivery.

**Delays in Meeting Revenue
Commitments Hamper
Efforts to Add Competition**

In developing the FTS2001 program strategy, IMC and GSA envisioned that FTS2001 contractors would be allowed to compete to offer services in the local MAA telecommunications markets and that MAA contractors would be allowed to compete in the FTS2001 long-distance market. This strategy would benefit agencies by allowing them to competitively acquire telecommunications services on an end-to-end local and long-distance service basis. There are several potential advantages to this approach. First, agencies might be able to obtain services at lower cost than they would otherwise because of opportunities to aggregate multiple service requirements with one provider. Second, using a single contractor would permit agencies to reduce the cost and effort associated with managing multiple contractors. Third, customer agencies might be able to obtain better network performance guarantees by purchasing end-to-end services from a service provider who owns or operates that infrastructure. These advantages—obtaining reliable, high-quality telecommunications services at low cost—increase in importance as the federal government moves to deliver more information and services electronically.

¹⁰The cost of an FTS 2000 telephone call includes a transport component and an access component. The estimates cited reflect the highest cost volume band for transport. The estimates do not include the increases in the access component of cost because that cost will be sensitive to a particular location. Access costs may range from a low of 5.7 cents per minute for a volume of 2,000,000 minutes, rising gradually to 17.2 cents per minute for 6,000 minutes of volume, then rising sharply to more than \$1 per minute for only 1,000 minutes of volume.

GSA's ability to maximize competition for services and enable agencies to acquire end-to-end services is constrained by its need to meet the substantial FTS2001 revenue guarantees. Under the terms of the respective contracts, each of the FTS2001 contractors is guaranteed minimum revenues of \$750 million over the life of the contracts, which may run from 4 to 8 years. Year 3 of the FTS2001 contracts began on October 1, 2000. When it awarded these contracts, GSA believed that they might be worth more than \$5 billion over an 8-year period. However, a GSA analysis of FTS2001 savings completed on January 28, 1999, revealed that the contracts' lowest prices could actually result in total contract revenues of only \$2.3 billion over 8 years. Revised program estimates developed in February 2000 affirmed this \$2.3 billion revenue estimate. Because of the need to meet the FTS2001 revenue commitments, GSA has not yet allowed other contractors into FTS2001 as originally envisioned.

Delays in completing the FTS2001 transition slow the accumulation of revenue to meet the government's contract commitment. Although FTS 2000 revenues do not correlate directly with FTS2001 revenues because of service and pricing differences, the available revenue data indicate that significant FTS 2000 expenditures are continuing that cannot be applied to meet FTS2001 minimum revenue guarantees. During fiscal year 2000, for example, more than \$465 million was paid out for FTS 2000 services. In addition, GSA reported that although 84 percent of all FTS2001 agency locations had completed transition by January 3, 2001, agencies still spent almost \$36.5 million on FTS 2000 services in December 2000, the last month for which data are available.¹¹

Even for Sprint, which is both an incumbent FTS 2000 service provider and an FTS2001 contractor, payments made for services not moved to the FTS2001 contract do not reduce the government's minimum revenue commitments to Sprint for FTS2001. Sprint's monthly FTS 2000 billings were about \$9.4 million in December 2000. Sprint expects to complete its portion of the FTS2001 transition in April 2001.

In managing the contracts' minimum revenue guarantees, GSA must cope not only with transition delay, but also with transition deferral and the loss of program customers. For example, despite some agency plans to transfer their FTS 2000 services to the FTS2001 contracts, 17 departments or

¹¹That figure for December 2000 does not include the \$8 million one-time payment made to AT&T in that month under a separate invoice.

agencies have since decided to use alternative suppliers for all or part of their services, which GSA values collectively at more than \$78 million. A few examples illustrate these losses.

- The Internal Revenue Service, in order to minimize risk, has delayed transitioning its toll-free 800 number services until it completes its systems modernization.
- NASA decided that it would be more efficient to acquire its data communications services through the agency's information technology support contract. (The agency is, however, transitioning its switched voice service to FTS2001.)
- The U.S. Postal Service, believing it could obtain better prices outside FTS2001, has awarded its own contract to meet most of its service needs.
- The Tennessee Valley Authority decided in October 2000 that it would not transfer its remaining services to FTS2001, partly due to problems encountered with billing and disconnected service.

This decline in customer base further exacerbates the difficulty of managing FTS2001 revenue guarantees. If transition can be completed rapidly, and if there is no further loss of customers, FTS2001 will be in a better position to expeditiously meet the minimum revenue guarantees, which will give GSA greater latitude in adding contractors in order to achieve its basic program goals.

Conclusions

Despite progress, the government did not meet its deadlines for transition to FTS2001 and has not yet completed this effort. The deadline was missed for numerous reasons: a lack of sufficient information to effectively oversee and manage this complex transition, slowness in completing all the contract modifications needed to add transition-critical services to the FTS2001 contracts, slowness of some customer agencies to order FTS2001 services, staffing shortfalls and billing problems on the part of FTS2001 contractors, and local exchange carriers' difficulties providing facilities and services on time. Until GSA addresses the outstanding issues impeding transition and expeditiously completes this transition, it will be unable to fully achieve its basic FTS2001 goals of ensuring the best service and maximizing competition.

Recommendations

To enable more accurate tracking of FTS2001 transition progress, we recommend that the Administrator of General Services direct the program manager for FTS2001 to

- obtain usable and complete management information, as required by contract, from the FTS2001 contractors by April 27, 2001; and
- track the status of FTS 2000 service disconnection orders and include that information in GSA's transition progress reports from April 6, 2001, onward.

To ensure achievement of FTS2001 program goals, we recommend that the Administrator direct the program manager for FTS2001 to promote the completion of the FTS2001 transition by ensuring that all remaining contract modification proposals related to the transition are processed expeditiously.

To ensure prompt identification and resolution of any outstanding billing issues, we recommend that the Administrator direct the program manager for FTS2001 to work with IMC to

- catalog all billing problems raised since January 2000 during the meetings of IMC and the IMC's Transition Task Force, GSA's biweekly FTS2001 management meetings, and other agency working groups;
- document the status of problems raised, and how and when they were resolved, as appropriate;
- obtain and document agency confirmation of the resolution of closed issues identified; and
- develop an action plan that identifies all current billing problems, the actions taken to date to resolve those problems, and a plan that will correct those problems by July 2, 2001.

Further, we recommend that the Administrator direct the program manager for FTS2001 to continue efforts to obtain consideration from the FTS2001 contractors for failure to meet management information and billing requirements within the time frames established in the contracts.

Agency Comments

In written comments on a draft of this report, the Acting Administrator for General Services generally agreed with our report and our recommendations, and indicated that GSA was acting to implement all recommendations. The Administrator stated, however, that the report did

not reflect the success of the FTS2001 transition. We believe that we have fairly characterized progress made on the transition and GSA's efforts to address those factors that are impeding completion. At the same time, we have noted that the deadline for completing transition was missed and as a result FTS2001 is experiencing delays in meeting its goals. We did not assess the cost savings that GSA mentions because this was not part of our review.

GSA also disagreed with our use of transition progress measurements developed by the IMC Transition Task Force because those measurements are incomplete and misleading. GSA requested that we use statistics generated by its Transition Coordination Center, which measure transition progress by customer sites, because GSA has been using these statistics for 18 months and the methodology was endorsed by IMC. We do not concur with GSA's position. The Transition Task Force's measurements are based on the number of service orders completed—a measurement that GSA ultimately tracks as well—as reported to the Transition Task Force by contractor program management staff and verified with agency transition managers. While we report that there are limitations on available transition management information, we believe that the IMC Transition Task Force's statistics represent a reasonably developed and independently derived assessment.

In its comments, GSA lists four additional factors that it believes have contributed to transition delays: a lack of an accurate service inventory, time and effort required to arrange for procedural agreements and network gateways between FTS2001 and FTS 2000 contractors, customer agencies' need to upgrade their facilities before or during transition, and customer agencies' need for customized services.

Because of the complexity of the transition process, we recognize that we did not discuss all the factors contributing to its delay. Rather, we focused on presenting the most significant factors. GSA mentioned some other contributing factors that may be involved. With regard to GSA's statements on service inventories and the need to upgrade customer facilities, we agree that an agency should have an accurate service inventory and a clear understanding of its transition needs—including upgrade requirements—before ordering services. These factors may have contributed to the agency delays in ordering FTS2001 services described in our report. Further, we recognize that there were delays in establishing procedural agreements and network gateways between the contractors. We agree with GSA, therefore, that the delay from the time that this transition risk was identified to the

time the agreements were reached likely impaired transition activity for some services. Finally, we recognize that some agencies' need for customized services was a reason for delays in the development and processing of contract modifications, and we have incorporated those comments where appropriate.

GSA offered two technical comments with respect to our recommendations concerning completion of contract modifications and the pursuit of consideration for requirements not met that we have incorporated as appropriate. GSA provided a number of other technical comments that we have incorporated as appropriate. GSA's written comments are presented in appendix II.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we will not distribute it until 30 days from its issue date. At that time, we will send copies of this report to Representative Janice Schakowsky, Ranking Minority Member, Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations; Representative Jim Turner, Ranking Minority Member, Subcommittee on Technology and Procurement Policy; and interested congressional committees. We are also sending copies to the Honorable Mitchell E. Daniels, Jr., Director of the Office of Management and Budget, and the Honorable Thurman M. Davis, Sr., Acting Administrator of the General Services Administration. Copies will be made available to others upon request. The report will also be available on GAO's home page at <http://www.gao.gov>.

If you have any questions regarding this report, please contact me or Kevin Conway at (202) 512-6240 or by e-mail at koontzl@gao.gov or conwayk@gao.gov, respectively. Other major contributors to this report were George L. Jones and Mary Marshall.



Linda D. Koontz
Director, Information Management Issues

Objectives, Scope, and Methodology

Our objectives were (1) to determine the status of the FTS2001 transition, (2) to identify the reasons for delays in transitioning to FTS2001, and (3) to evaluate the potential effects of transition delays on meeting program goals of maximizing competition for services and ensuring best service and price.

To determine the status of FTS2001 transition efforts, we obtained and analyzed the transition plans and related documentation prepared by GSA, the FTS2001 contractors, and select federal agencies. We obtained and reviewed transition management reports independently prepared by GSA FTS2001 program managers and by the Interagency Management Council's Transition Task Force.

To identify the reasons for the pace of the FTS2001 transition and to determine why the transition was taking so long to complete, we interviewed GSA's FTS2001 program managers as well as FTS2001 contractors in order to better understand their respective transition processes and reasons for progress to date. We also reviewed transition documentation, including minutes and presentations from monthly IMC and IMC Transition Task Force meetings and GSA bi-weekly management sessions with the FTS2001 contractors. In addition, we interviewed transition managers in 12 agencies to understand the processes they had in place for the transition, progress made, and problems encountered. The agencies selected were the Departments of Defense, Energy, Housing and Urban Development, Treasury, Agriculture, Education, Health and Human Services, and Interior, as well as the Administrative Office of the U.S. Courts, the Tennessee Valley Authority, the National Aeronautics and Space Administration, and the U.S. Postal Service. We selected 10 of the 12 agencies because they represented the five leading agencies and five lagging agencies identified in a June 2000 GSA transition progress report. We subsequently identified through program management documents two additional agencies that could provide us with greater insight into the billing issues that were impeding transition progress.

We also interviewed officials from an FTS 2000 service provider, AT&T, and a local exchange carrier, Verizon, to determine their roles in the transition process and to identify impediments they may have encountered while working with agencies and FTS2001 contractors to transfer telecommunications services to FTS2001.

To evaluate the potential effect of transition delay on program goals, we reviewed program strategy documentation, FTS2001 contracts, and reports and documentation including weekly GSA transition status reports,

minutes of monthly IMC and IMC Transition Task Force meetings, presentations from monthly IMC Transition Task Force meetings, and minutes of GSA bi-weekly management sessions with the FTS2001 contractors. Further, we reviewed government FTS 2000 and FTS2001 billing reports current through the month of December 2000 (the last month for which billing information was available) and revised FTS2001 contractor transition completion estimates. We also reviewed a September 2000 revenue analysis prepared for GSA by Mitretek Systems that considered the potential effect of transition delays and changes in revenue projections—positive and negative—on minimum revenue guarantees based on transition progress up to that date. We obtained documentation and reviewed the terms and conditions of FTS 2000 extension contract modifications that were made in December 2000 and interviewed GSA FTS2001 contracting staff to understand the implications of those modifications on FTS2001 minimum revenue guarantees. We performed our audit work from July 2000 through February 2001 in accordance with generally accepted government auditing standards.

Comments From the General Services Administration



GSA Administrator

March 2, 2001

Mr. Joel C. Williamson
Managing Director, Information Technology Issues
United States General Accounting Office
Washington, DC 20548

Dear Mr. Williamson:

Thank you for the opportunity to review the draft report "FTS2001: Transition Challenges Jeopardize Program Goals" (GAO-01-289).

FTS 2001 Transition is a success on a grand scale. The partnership forged among Government agencies and with industry during the development of program strategy has continued. Fully 88 percent of FTS2000 services at customer sites have transitioned to FTS2001. Many agencies have upgraded their networks using the most current technology to meet more demanding mission requirements. In addition, a significant cultural change has begun. Customers can choose their service provider. They now have access to a wider range of solutions, more commercial services, better interoperability with the private sector, more security options, and a global reach. Finally the savings have been significant. In 2000, our customers paid \$150 million less than they paid for the same services in 1999. They will save \$250 million in 2001.

Customers, contractors, and the General Services Administration now plan to complete transition to FTS2001 by June 2001, six months later than our original plan developed in 1998. Unfinished work includes replacing and upgrading very complex agency data networks, and services in remote locations. The challenge and complexity of the transition process is captured in the GAO report. Close cooperation, clear communication, ingenuity, flexibility, and teamwork have been essential to our success to date, and are even more evident today.

The FTS2001 program strategy envisions more competition within the program by allowing winners of Federal Technology Service Metropolitan Area Access and FTS2001 contracts to provide end-to-end local and long distance service. We have begun to examine the implications of that action including contractor capabilities and performance, State and Federal regulations, and benefits to our customers. By June, when remaining FTS2000 customers have moved to FTS2001 contractors, we will be in a better position to assess our options and plans.

U.S. General Services Administration
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Appendix II
Comments From the General Services
Administration

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The GAO report contained recommendations to enable more accurate tracking of transition progress, to resolve outstanding billing issues, and to promote effective contract management. Activities are already underway to adopt them all.

Specific comments on GAO's report and supplemental information that you requested are attached. We appreciate GAO's review of the FTS2001 program goals and transition status, and suggestions to improve them.

Sincerely,

David L. Bibb

for Thurman M. Davis, Sr.
Acting Administrator

Enclosure:
Comments on Draft Report (GAO-01-289)

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